No. 04-480

Supreme Court, U.S.
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In The Supreme Court of the United States

METRO-GOLDWYN-MAYER STUDIOS INC., *et al.*,

Petitioners,

v.

GROKSTER, LTD., *et al.*,

Respondents.

On Petition For Writ Of Certiorari To The United States Court Of Appeals For The Ninth Circuit

BRIEF IN OPPOSITION

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QUESTION PRESENTED

Whether the district court and Ninth Circuit correctly concluded that Congress, rather than the courts, should decide whether and how to expand the scope of the statutory copyright monopoly to reach new technologies that have substantial noninfringing uses.

PARTIES TO THE CASE AND RULE 29.6 STATEMENT

Petitioners here and appellants below are Metro-Goldwyn-Mayer Studios Inc.; Columbia Pictures Industries, Inc.; Disney Enterprises, Inc.; Warner Bros. Entertainment Inc. (as successor-in-interest to the Filmed Entertainment Division of Time Warner Entertainment Company, L.P.); New Line Cinema Corporation; Paramount Pictures Corporation; Twentieth Century Fox Film Corporation; Universal City Studios LLLP (f/k/a Universal City Studios, Inc.); Arista Records, Inc.; Atlantic Recording Corporation; Rhino Entertainment Company; Bad Boy Records; Capitol Records, Inc.; Elektra Entertainment Group Inc.; Hollywood Records, Inc.; Interscope Records; LaFace Records, Inc.; London-Sire Records Inc.; Motown Record Company, L.P.; The RCA Records Label, a unit of BMG Music d/b/a BMG Entertainment; Sony Music Entertainment Inc.; UMG Recordings, Inc.; Virgin Records America, Inc.; Walt Disney Records; Warner Bros. Records Inc.; WEA International Inc.; Warner Music Latina Inc.; Zomba Recording Corporation; Jerry Leiber, individually and d/b/a Jerry Leiber Music; Mike Stoller, individually and d/b/a Mike Stoller Music; Peer International Corporation; Songs of Peer, Limited; Peermusic, Limited; Criterion Music Corporation; Famous Music Corporation; Bruin Music Company; Ensign Music Corporation; Let's Talk Shop, Inc. d/b/a Beau-Di-O-Do Music.

Respondents, appellees below, are StreamCast Networks, Inc. and Grokster Ltd.

The parent company of Respondent StreamCast Networks, Inc. is Stirling Bridge, Inc., which is not a publicly traded company.

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BRIEF IN OPPOSITION

OPINIONS BELOW

The opinion of the court of appeals is reported at 380 F.3d 1154 and reprinted in the Appendix to the Petition ("Pet. App.") at 1a-22a. The opinion of the district court is comprised of two rulings: the first reported at 259 F.Supp.2d 1029, Pet. App. 23a-56a, and the second filed on June 18, 2003, reprinted in the Appendix to this Brief in Opposition ("Opp. App.") at 1a-10a.

JURISDICTION

The judgment of the court of appeals was entered on August 19, 2004. The petition for writ of certiorari was filed on October 8, 2004. The jurisdiction of this Court is invoked under 28 U.S.C. § 1254(1).

INTRODUCTION

The petition for certiorari from the interlocutory ruling of the court of appeals satisfies none of the criteria for review in this Court. Petitioners seek error correction, pure and simple. They concede that no precedent of this Court supports their position. *See, e.g.,* Pet. 12 ("*Sony-Betamax* did not, however, resolve the question presented here. . . . "). Nor is this a case in which the Court is called upon to interpret or evaluate the constitutionality of a legislative enactment in an area involving technological change. *Cf. Eldred v. Ashcroft,* 537 U.S. 186 (2003); *Reno v. ACLU,* 521 U.S. 844 (1997). The claimed circuit conflict with a single ruling of the Seventh Circuit – relegated to page 24 of the petition – is entirely illusory. Petitioners identify no statutory provision that supports their position, for none exists. Even their call for error correction is no more than a naked request that this Court overturn both the factual findings of the district court below and settled principles of secondary copyright liability.

The Court should reject that request. As this Court has repeatedly acknowledged, Congress is the body the

Constitution charges with determining what is "just and economically rational," Pet. 12, in striking the balance between the interests of copyright holders and technology innovators. Congress, moreover, is at this moment considering the very question Petitioners pose to this Court – whether and how copyright law should be altered to address the challenges and opportunities created by new internet technologies, including peer-to-peer ("P2P") file sharing. Congress' judgment will be informed by the essential facts that Petitioners ask this Court to brush aside – that the technology in question has substantial noninfringing uses, and that the prospect of massive and unpredictable liability for innovators under Petitioners' theory would cast a pall over the nation's technology sector.

Petitioners ask this Court to preempt the legislative process and substitute judicial policy-making: "A court must assess a system's actual and probable potential infringing and noninfringing uses, and then must balance the costs and benefits to accommodate the interests of copyright holders in preventing infringement while protecting the right of the public to use products for noninfringing uses." Pet. 24.

The Court rejected exactly this invitation in *Sony Corp. of America v. Universal City Studios*, 464 U.S. 417 (1984), announcing a rule of deference to Congress that has served copyright owners, innovators and the public well for twenty years. In turn, Congress has repeatedly amended the Copyright Act to address new technologies and to craft balanced, nuanced statutory solutions to accommodate the competing interests of these two critical sectors of the American economy, as well as "society's . . . interest in the free flow of ideas, information and commerce." *Id.* at 429.

The courts below correctly rejected Petitioners' arguments and applied this Court's directly applicable holding in *Sony v. Universal*. In the absence of any circuit split, and in light of this Court's settled precedent, there is no reason to second-guess the lower court rulings here.

The petition should be denied.

STATEMENT

I. Applicable Copyright Law Principles.

1. Copyright is a "domain the Constitution assigns to the First Branch." *Eldred v. Ashcroft*, 537 U.S. at 222. For more than a century, it has been settled that "the protection given to copyrights is wholly statutory." *Sony v. Universal*, 464 U.S. at 431 (citing *Wheaton v. Peters*, 33 U.S. (8 Peters) 591 (1834)). Defining the scope of the statutory copyright grant "involves a difficult balance between the interests of authors . . . in the control and exploitation of their writings . . . on the one hand, and society's competing interest in the free flow of ideas, information and commerce, on the other hand." *Id.* at 429.

The "difficult balance" that characterizes copyright law regularly must be reassessed in light of new technologies. This Court has recognized that Congress is the appropriate body to perform this reassessment because "Congress has the constitutional authority and the institutional ability to accommodate fully the varied permutations of competing interests that are inevitably implicated by such new technology." *Id.* at 431. Accordingly, this Court has concluded that "[s]ound policy, as well as history, supports our consistent deference to Congress when major technological innovations alter the market for copyrighted materials." *Id.*

2. That is not to say that the courts have no role to play in evaluating claims of secondary copyright infringement. Rather, courts have articulated two limited theories of secondary liability – theories that indisputably do not give rise to liability here – and left further extensions of liability to Congress. Those two theories are contributory infringement and vicarious liability.

Contributory infringement is effectively an aiding and abetting theory and requires: (1) direct infringement by a primary infringer; (2) knowledge of such infringement by the alleged contributory infringer; and (3) material contribution by the contributory infringer to the primary infringer's violation. Pet. App. 8a. Vicarious liability is an

outgrowth of *respondeat superior* and requires: (1) direct infringement by a primary infringer; (2) direct financial benefit to the secondary infringer from such infringement; and (3) the right and ability of the secondary infringer to supervise the primary infringer. Pet. App. 16a.

It was not until *Sony v. Universal* that a copyright owner attempted to apply these judge-made principles to the developer, manufacturer, or distributor of a multipurpose technology – the Sony Betamax video recorder. This Court rejected that "unprecedented" extension of judge-made secondary liability principles, cautioning that such an extension would effectively "enlarge the scope of respondents' statutory monopolies to encompass control over an article of commerce." *Sony v. Universal,* 464 U.S. at 421.

In order to avoid this intrusion into the legislative domain, *Sony v. Universal* looked to the closest statutory analog – the patent laws – to define an outer limit for judge-made secondary copyright liability principles. *See* 35 U.S.C. § 271(c). In copyright, as in patent, the Court held, a defendant cannot be liable for making or distributing a device so long as the technology in question is "capable of substantial noninfringing uses." *Sony v. Universal,* 464 U.S. at 442.

This holding in *Sony v. Universal* has provided a default rule on which innovators of all stripes have depended for two decades. Meanwhile, Congress has taken up its constitutional obligation to balance the interests of innovators, copyright owners, and the public by amending the Copyright Act no fewer than seven times to address new technologies as they arise. *See, e.g.,* Satellite Home Viewer Act of 1988, Pub.L. No. 100-667, 102 Stat. 3960 (codified at 17 U.S.C. § 119) (establishing compulsory licenses for satellite television broadcasters); Audio Home Recording Act of 1992, Pub.L. No. 102-563, 106 Stat. 4237 (codified at 17 U.S.C. §§ 1001-1010) (adopting levy and technology mandates for digital audio recording); Digital Performance Rights in Sound Recordings Act of 1995, Pub.L. No. 104-39, 109 Stat. 336 (codified at 17 U.S.C. §§ 106(6), 114) (creating new public performance rights,

and accompanying compulsory licenses, for digital transmission of sound recordings); No Electronic Theft Act of 1997, Pub.L. No. 105-147, 111 Stat. 2678 (codified at 17 U.S.C. § 506(a)) (expanding scope of criminal copyright infringement in response to increase in noncommercial digital infringements); Digital Millennium Copyright Act of 1998, Pub.L. No. 105-304, 112 Stat. 2860 (codified at 17 U.S.C. §§ 1201-1205) (creating new protections for rightsholders that employ technical protection measures on digital works); Small Webcaster Settlement Act of 2002, Pub.L. No. 107-321, 116 Stat. 2780 (codified at 17 U.S.C. § 114) (adjusting compulsory license rates for small webcasters); Technology, Education, and Copyright Harmonization Act of 2002, Pub.L. No. 107-273, 116 Stat. 1758 (codified at 17 U.S.C §§ 110(2), 112) (expanding copyright exceptions for educational and library users to facilitate distance learning over the internet).

During those twenty years, however, Congress has left conspicuously undisturbed the rule of judicial deference announced in *Sony v. Universal*.

II. Factual Background.

This case involves P2P file sharing software distributed by Respondents. Simply put, these software products enable individuals to exchange digital files with others over the internet. The technology enables transfers of any sort of digital file, from text to video to music, including innumerable items that are not copyrighted or whose creators have affirmatively authorized and encouraged free distribution and redistribution.

The ruling below ably describes the manner in which the software functions. Pet. App. 4a-8a. For purposes of disposing of Petitioners' arguments for certiorari, however, two factual findings by the lower courts bear special attention.

1. First, as the Ninth Circuit found after "careful examination of the record," it is undisputed that the software distributed by Respondents is not only *capable* of noninfringing uses, but is today *actually being used* to

distribute millions of noninfringing files and that those noninfringing uses are commercially significant. Pet. App. 10a-12a.

Respondents introduced uncontroverted evidence, and the lower courts found as a matter of fact, that many artists and authors welcome the free distribution of their works on P2P networks. For example, Respondents submitted the declaration of nine-time Grammy nominated singer-songwriter Janis Ian, who credits P2P sharing of her music for increased CD sales. JER 2:387-90.[1] In addition, evidence was submitted regarding the numerous well-known bands, including Phish, Pearl Jam, the Dave Matthews Band and John Mayer, that have authorized free P2P sharing of live concert recordings among fans. JER 3:654-51. On the basis of the evidence submitted, the Ninth Circuit found that "the record indicates that thousands of other musical groups have authorized free distribution of their music through the internet."[2] Pet. App. 11a. P2P networks are also being used to distribute "shareware" and "freeware" software that is authorized for redistribution. JER 26:7608.

Respondents also introduced undisputed evidence that commercial ventures are using P2P networks to distribute entertainment and promotional content that has been authorized for distribution in these channels. The evidence below established that a variety of commercial ventures, including the Prelinger Archives, GigAmerica, Reel Mind and J!VE Media, have built their commercial businesses

[1] Citations to the Joint Excerpts of Record below will be in the form "JER 26:2345," where the number before the colon indicates the volume, while the one following the colon indicates the page number.

[2] To take just one example of this rapidly accelerating phenomenon, the Internet Archive is today distributing over 17,000 concert recordings from more than 700 musical groups using P2P networks. *See* Internet Archive: Live Music Archive (available at <http://www.archive.org/audio/>). Brewster Kahle, founder of the Internet Archive, provided testimony below in which he emphasized the importance of P2P networks in making this kind of noncommercial distribution feasible and cost-effective. JER 2:507-11.

by using P2P networks to promote and distribute hundreds of thousands of authorized copies of music, games, and video content. JER 2:502-05, 513-17, 528, 4:954-55.

Respondents' software is also being used to distribute and obtain public domain and government works. Several noncommercial efforts, including Project Gutenberg and the Internet Archive, have been using P2P networks to distribute thousands of public domain works. JER 2:401-06, 507-11, 3:630-31. In fact, Petitioners' own expert below, despite using a deliberately blinkered search strategy, was unable to avoid finding public domain works by Shakespeare, the King James Bible, the Koran, the Communist Manifesto, and several of Plato's dialogs. JER 3B:752.109-13.

In the two years since the record was developed in the district court, the noninfringing commercial uses of P2P networks have been growing rapidly.[3] *Cf. Ashcroft v. ACLU*, 124 S.Ct. 2783, 2794-95 (2004) (noting that the rapid pace of change in the internet context can leave facts stale by the time appellate review occurs). This accelerating trend is not surprising, as P2P networks promise to dramatically reduce the costs of distribution for content owners who are willing to embrace them. Pet. App. 16a (Ninth Circuit finding that P2P technologies "significantly reduc[e] the distribution costs of public domain and permissively shared art and speech").

Petitioners drastically mischaracterize the record and the lower court rulings with respect to the noninfringing uses of Respondents' software. The Ninth Circuit did not

[3] *See, e.g.*, Chris Marlowe, *Artists Take Advantage of P2P Music Sharing*, The Hollywood Reporter, Aug. 25, 2004 (available at <http://www.hollywoodreporter.com/thr/columns/tech_reporter_display.jsp?vnu_content_id=1000617772>) (noting that rock band Heart sold more songs on P2P networks, including to users of Respondents' software, than through Apple's iTunes Music Store); Sue Zeidler, *Big Media Quietly Using File-Sharing*, Reuters, Nov. 4, 2003 (available at <http://www.msnbc.com/news/988642.asp>) (describing P2P promotional campaign arranged by the Jun Group on behalf of major beverage company involving the free distribution of music by the HiWatts).

simply "pronounce" these technologies capable of commercially viable noninfringing uses, nor did it rely on "anecdotes" detailing how the software "might be used." Pet. 20. Both the district court and Ninth Circuit closely examined the record and, based on the voluminous uncontroverted evidence submitted by Respondents, *found as a matter of undisputed fact* that the software in question is today being used for commercial (as well as noncommercial) noninfringing uses. Pet. App. 10a-11a ("The Copyright Owners submitted no evidence that could contradict" Respondents' evidence regarding noninfringing uses.); Pet. App. 33a-34a (district court citing evidence of both commercial and noncommercial noninfringing uses). Petitioners' efforts to attack these factual findings for the first time before this Court are improper and unavailing. Opp. App. 7a (court below noting that "Plaintiffs have essentially not disputed that Defendants' software has current and potential noninfringing uses, and it is curious that Plaintiffs would seek to squarely address this issue for the first time on appeal.").

Accordingly, it is factually established that Respondents' software is not only capable of, but also has widespread actual, noninfringing commercial and noncommercial uses. As discussed below, that finding is dispositive of Petitioners' secondary liability claims under *Sony v. Universal*.

2. Both the district court and Ninth Circuit found, as a matter of undisputed fact, that Respondents have no ability to discover, monitor, or control what the users of their software choose to search for, share, or download.

The P2P software at issue enables its users to create a decentralized network over the internet. As the Ninth Circuit correctly observed, and Petitioners concede, Pet. 6-7, Respondents' software does not depend on any centralized computers or indices created or maintained by Respondents: "[I]t is the users of the software who, by connecting to each other over the internet, create the network and provide the access." Pet. App. 15a. Users are not required to "log in" or otherwise interact with any

computers controlled by Respondents in order to join the network, nor do Respondents have any ability to block access to individual users. Pet. App. 18a. In short, once the software has been downloaded by users, Respondents have no involvement in, nor ability to control, what it is used for. In fact, the lower courts found that Respondents could shutter their operations altogether and the users of its software could continue to access the P2P networks without impairment.[4] Pet. App. 13a.

Despite these factual findings below (which Petitioners do not contest, but blithely dismiss as "immaterial" Pet. 6), Petitioners mischaracterize Respondents as providers of a "service" rather than a product and imply that the public P2P networks are a "distribution system" somehow controlled by Respondents. Pet. 5. Neither the district court nor the Ninth Circuit were taken in by Petitioners' rhetoric: "The district court found that ... Grokster and StreamCast do not operate and design an integrated service which they monitor and control. We agree." Pet. App. 19a.

III. Proceedings Below.

The instant petition arises from an interlocutory order certified by the district court to the Ninth Circuit for appeal. The district court's order, issued on April 25, 2003 and amended by its subsequent order of June 18, 2003, granted Respondents' (defendants below) motions for partial summary judgment as to Petitioners' contributory infringement and vicarious liability claims. The Court of Appeals subsequently affirmed.

1. In October 2001, twenty-eight companies representing the major record and motion picture industries

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[4] Petitioners contend that the software was previously designed to operate differently. As discussed *supra*, the district court has not yet ruled with respect to liability for prior versions of the software. Opp. App. 2a. Accordingly, that question is not before this Court in this interlocutory appeal.

filed suits against Respondents, alleging contributory and vicarious copyright infringement. In November 2001, a similar suit was filed by several song-writers and music publishers. The district court subsequently consolidated the actions for discovery.[5]

In September 2002, StreamCast filed two motions for partial summary judgment, one each aimed at Petitioners' contributory infringement and vicarious liability claims. JER 1:230-77. At the same time, Grokster and Petitioners moved for complete summary judgment as to all claims. JER 1:142-70; 2:656-713.

In an April 25, 2003 order, the district court granted StreamCast's motion, and granted Grokster's motion in part. In granting Respondents' motions, the district court noted the limited scope of its ruling, emphasizing that "[t]he Court declined to rule on the current record as to the potential liability arising from 'past versions' of Defendants' products and services." Opp. App. 2a. In a June 18, 2003 order, the district court clarified its earlier ruling and certified the matter for interlocutory appeal pursuant to 28 U.S.C. § 1292(b) and Rule 54(b). Opp. App. 2a-9a.

Petitioners' claims of liability for earlier versions of Respondents' software are still pending before the district court. Opp. App. 8a. Similarly, the case in chief against a number of remaining defendants is also still before the district court, with a summary judgment motion currently pending.[6]

In its orders, the district court rejected Petitioners' contributory infringement claims for two independent reasons grounded in factual findings. First, the court found that, as a matter of undisputed fact, Respondents' software was capable of, and actually being used for,

[5] The actions also named several other defendants, not involved in this appeal, which distribute the Kazaa software program.

[6] A motion for summary judgment by the Kazaa defendants has been noticed for argument before the district court on November 8, 2004.

substantial noninfringing uses. Pet. App. 33a-34a. The court then surveyed the record and held that Petitioners had also failed to satisfy the "material contribution" element of contributory infringement, noting the complete absence of "evidence of active and substantial contribution to the infringement itself." Pet. App. 48a. In concluding its examination of the record, the district court found that "Grokster and StreamCast are not significantly different from companies that sell home video recorders or copy machines, both of which can be and are used to infringe copyrights." Pet. App. 48a.

Turning to vicarious liability, the district court found that "[t]here is no admissible evidence before the Court indicating that Defendants have the ability to supervise and control the infringing conduct (all of which occurs *after* the product has passed to end-users)." Pet. App. 54a (emphasis in original). The court recognized Petitioners' claim for what it was – an invitation to dramatically extend vicarious liability principles to impose liability on the basis of financial benefit alone – and declined to unmoor vicarious liability from its traditional elements.

2. On interlocutory appeal, a unanimous panel of the Ninth Circuit affirmed the district court's grant of partial summary judgment, holding that "the district court correctly applied applicable law and properly declined the invitation to alter it." Pet. App. 22a.

With respect to contributory infringement, the Ninth Circuit faithfully applied the teachings of this Court's ruling in *Sony v. Universal*. The panel found that "[a] careful examination of the record indicates that there is no genuine issue of material fact as to noninfringing use." Pet. App. 10a. The court then rejected Petitioners' suggestion that the court ignore this evidence in favor of weighing the proportion of infringing and noninfringing uses. The court noted that both *Sony v. Universal* and the Ninth Circuit's own precedent in *A&M Records v. Napster*, 239

F.3d 1004 (9th Cir. 2001), eschewed a proportionality inquiry in favor of a focus on capability.[7]

Separate and apart from its consideration of *Sony v. Universal*, the Ninth Circuit also found that Petitioners had failed to come forward with any evidence showing that Respondents "materially contributed" to direct infringement, noting that Respondents did not provide the "site and facilities" for infringement, nor did they materially contribute to the infringing activities in any way once the software had been downloaded by users. Pet. App. 15a-16a. "No infringing files or lists of infringing files are hosted by defendants, and the defendants do not regulate or provide access." Pet. App. 16a.

With respect to vicarious liability, the Ninth Circuit found that the undisputed facts established that Respondents lacked any ability to supervise users who might be engaged in infringing activities. Applying both its own and the Second Circuit's settled precedents[8] to the undisputed facts, the Ninth Circuit held that Respondents lacked any ability to block users from accessing the P2P networks or to control what users search for, share or download. Pet. App. 17a-19a. In fact, the court recognized that "the sort of monitoring and supervisory relationship that has supported vicarious liability in the past is completely absent in this case." Pet. App. 19a.

The court of appeals agreed with the district court that Petitioners' vicarious liability argument was thus "little more than a contention that the software itself could

[7] In ruling against Napster, the Ninth Circuit concluded that while the Napster file-sharing service was capable of substantial noninfringing uses, this was of limited assistance to Napster in light of its centralized indices, which conferred on Napster actual knowledge of, and control over, specific infringements on its system. *See Napster,* 239 F.3d at 1020.

[8] This Court has never recognized the theory of vicarious liability in copyright law. Although the claim was alleged before the district court in *Sony v. Universal*, it was not before this Court on appeal. *See Sony v. Universal,* 464 U.S. at 435 n.17.

be altered to prevent users from sharing copyrighted files." Pet. App. 19a. The court properly declined Petitioners' invitation to change the law so as to transform vicarious liability into a general and on-going duty on technology vendors "to alter software located on another person's computer." Pet. App. 20a.

The Ninth Circuit closed its opinion by returning to *Sony v. Universal,* noting Petitioners' arguments amounted to an invitation to "expand[] exponentially the reach of the doctrines of contributory and vicarious copyright infringement." Pet. App. 21a. This the Ninth Circuit declined to do, heeding this Court's message of deference when it comes to crafting copyright laws:

> [W]e live in a quicksilver technological environment with courts ill-suited to fix the flow of internet innovation. . . . Thus, it is prudent for courts to exercise caution before restructuring liability theories for the purpose of addressing specific market abuses, despite their present magnitude. Indeed, the Supreme Court has admonished us to leave such matters to Congress. In *Sony-Betamax*, the Court spoke quite clearly about the role of Congress in applying copyright law to new technologies.

Pet. App. 21a-22a.

IV. Congressional Activity.

Congress is aware of the challenges created by new internet technologies, including P2P file sharing. No fewer than eight bills addressing the issue are pending before the current Congress.[9]

[9] *See, e.g.*, Inducing Infringement of Copyrights Act of 2004, S. 2560; Protecting Intellectual Rights Against Theft and Expropriation (PIRATE) Act of 2004, S. 2237; Enhancing Federal Obscenity Reporting and Copyright Enforcement (EnFORCE) Act of 2003, S. 1933; Artists' Rights and Theft Prevention (ART) Act, S. 1932; Piracy Deterrence and Education Act of 2004, H.R. 4077; Protecting Children

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In fact, Congress is in the midst of considering two particular measures intended to address P2P file sharing directly. The first of these is an omnibus copyright measure that combines several proposals intended to develop public copyright education programs and enhance penalties for direct infringers.[10] This approach emphasizes deterrence and education aimed at direct infringers in place of expanded liability for software vendors.

The second measure, the Inducing Infringement of Copyrights Act,[11] squarely addresses the question Petitioners seek to put to this Court: whether copyright's secondary liability rules should be radically reconfigured in order to give copyright owners control over new technologies that can be used for infringement. In the few months since Senate Judiciary Committee Chairman Orrin Hatch introduced the bill, it has proven highly controversial, leading Senator Hatch to convene a working group that includes representatives of the entertainment and technology sectors to craft a balanced solution. The technology sector, in particular, has expressed serious concerns lest an overbroad secondary liability regime leave numerous technology vendors vulnerable to the expense and uncertainty of litigation.[12] During the course of these negotiations, it became clear that Congress needed to balance carefully the competing interests, and that the matter was too complex to be resolved in haste in the final

from Peer-to-Peer Pornography Act of 2003, H.R. 2885; Author, Consumer and Computer Owner Protection and Security (ACCOPS) Act of 2003, H.R. 2752; Cooperative Research and Technology Enhancement (CREATE) Act of 2004, H.R. 2391.

[10] *See* Cooperative Research and Technology Enhancement (CREATE) Act of 2004, H.R. 2391 (as amended by the Senate).

[11] *See* Inducing Infringement of Copyrights Act of 2004, S. 2560 (introduced June 22, 2004).

[12] *See, e.g.*, Letter from Gary Shapiro, Consumer Electronics Assoc., John W. Steadman, IEEE-USA, and Kevin McGuiness, NetCoalition, to Sen. Orrin G. Hatch and Sen. Patrick J. Leahy (Oct. 6, 2004), Opp. App. 11a-13a.

days of the current session.[13] Senator Hatch has stated his intention to return to the question in the new year.[14]

Petitioners, apparently disappointed with the pace of the legislative process, filed the instant petition one day after it became clear that their desired revision would not be enacted during this congressional session.[15]

REASONS FOR DENYING THE WRIT

Petitioners misdescribe the basic question presented by this case as *what* the rules for secondary copyright liability should be for developers and distributors of multipurpose digital technologies. Rather, the crucial question is *who* should determine those rules.

The answer to that question has been well settled for at least twenty years: "Congress has the constitutional authority and the institutional ability to accommodate fully the varied permutations of competing interests that are inevitably implicated by such new technology." *Sony v. Universal*, 464 U.S. at 431. Petitioners cannot and have not offered any reason for this Court to accept, in the district court's words, Petitioners' "invitation to judicial policy-making," Opp. App. 7a, especially when Congress is itself in the midst of considering the very issue Petitioners urge on this Court.

Moreover, there is no circuit split on the legal questions presented by this case. Nor does this interlocutory appeal present an appropriate vehicle for Supreme Court review.[16] Finally, the need for a substantial revision of

[13] *See* Ted Bridis, *Senate Talks Fail on File-Sharing Software*, AP Newswires, Oct. 7, 2004.

[14] *See id.*

[15] *See id.*

[16] This Court has repeatedly noted that certiorari from interlocutory appeals is disfavored. *See, e.g., Virginia Military Institute v. United States*, 508 U.S. 946 (1993) (Scalia, J., concurring in denial of cert.) ("We generally await final judgment in the lower courts before exercising our certiorari jurisdiction."); *Estelle v. Gamble*, 429 U.S. 97, 114-15

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copyright law is not so urgent that that it would justify this Court taking over the task from a Congress already examining the issues raised by P2P file sharing.

I. Finding The Proper Accommodation Between New Technologies And Copyright Is A Task Properly Entrusted To Congress.

The primacy of Congress in our federal intellectual property system was at the heart of *Sony v. Universal*:

> Sound policy, as well as history, supports our consistent deference to Congress when major technological innovations alter the market for copyrighted materials. Congress has the constitutional authority and institutional ability to accommodate fully the varied permutations of competing interests that are inevitably implicated by such new technology. In a case like this, where Congress has not plainly marked our course, we must be circumspect in construing the scope of rights created by a legislative enactment that never contemplated such a calculus of interests.

Sony v. Universal, 464 U.S. at 431. This Court recently reaffirmed this principle in *Eldred v. Ashcroft*, 537 U.S. at 212.

In the wake of *Sony v. Universal*, Congress has not shrunk from the task of adjusting copyright laws in light of new technologies. As noted above, in the years since 1984 Congress has amended the Copyright Act to address digital audio recorders,[17] satellite television broadcasting,[18] webcasting,[19] and (ironically enough) analog video cassette

(1976) (Stevens, J., dissenting) (referring to "the Court's normal practice of denying interlocutory review"); *American Construction Co. v. Jacksonville, T. & K.W. Railway Co.*, 148 U.S. 372, 384 (1893).

[17] 17 U.S.C. §§ 1001-1010.

[18] 17 U.S.C. § 119.

[19] 17 U.S.C. §§ 112, 114(d).

recorders.[20] Congress has expanded the reach of criminal copyright law[21] and has enacted bans on devices that intercept scrambled cable and satellite television signals.[22] Congress in 1998 enacted the Digital Millennium Copyright Act to extend special legal protections to copyright owners who take steps to protect their content with technical measures.[23] Tellingly, however, it has left intact the limits on judge-made secondary liability principles established by this Court in *Sony v. Universal*.

None of Congress' responses to technological change could have been crafted by courts imposing judge-made secondary liability principles. Where courts are concerned, the Copyright Act's rigid statutory scheme affords precious little room to maneuver. For example, prevailing copyright owners are entitled to statutory damages based on each work infringed,[24] a multiplier that would annihilate technology vendors in virtually every secondary liability case.[25] The Copyright Act also authorizes seizures,[26] criminal prosecution,[27] relaxed standards for preliminary injunctive relief,[28] and attorney's fees.[29]

[20] 17 U.S.C. § 1201(k).

[21] 17 U.S.C. § 506(a)(2).

[22] 47 U.S.C. § 605(e)(4).

[23] 17 U.S.C. § 1201.

[24] For this reason, the dissenters in *Sony v. Universal* were mistaken when they argued that the courts could impose a running royalty on Betamax VCRs, thereby approximating a compulsory license. *See Sony v. Universal*, 464 U.S. at 499 (Blackmun, J., dissenting).

[25] *See* 17 U.S.C. § 504(c). A single Apple iPod filled with 3,000 songs would give rise to a *minimum* of $2.25 million in statutory damages. Apple has sold more than 6 million iPods to date. *See Apple Shares Close at 4-Year High*, Reuters, Oct. 28, 2004 (available at <http://www.reuters.com/newsArticle.jhtml?type=businessNews&storyID=6651560>).

[26] *See* 17 U.S.C. § 509.

[27] *See* 17 U.S.C. § 506.

[28] *See Micro Star v. Formgen, Inc.*, 154 F.3d 1107, 1109 (9th Cir. 1998).

[29] *See* 17 U.S.C. § 505.

Congress, in contrast, has both the institutional ability to weigh the competing concerns of the technology and copyright industries, as well as the interests of society at large. In particular, it is Congress alone that has the full array of policy levers at its disposal. In accommodating copyright law to new technologies, for example, Congress has sometimes employed compulsory licensing,[30] sometimes imposed limited technology mandates,[31] sometimes modified copyright's remedial scheme,[32] and has sometimes let the market function without intervention.[33] This array of policy options is simply not available to the courts. Moreover, Congress has been able to act incrementally on an industry-by-industry and technology-by-technology basis,[34] an approach not available to courts applying secondary liability principles equally applicable to all copyrights and technologies.[35]

By confining the scope of copyright's judge-made secondary liability principles as applied to new technologies, this Court in *Sony v. Universal* wisely took the judiciary out of

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[30] *See* 17 U.S.C. §§ 111 (cable TV), 114 (webcasting), 115 (sound recordings), 119 (satellite television broadcasting).

[31] *See* 17 U.S.C. §§ 1002 (digital audio recorders), 1201(k) (analog VCRs),

[32] *See* 17 U.S.C. §§ 512 (safe harbors for online service providers), 506(a)(2) (imposing criminal liability on noncommercial infringers).

[33] *See* JAMES LARDNER, FAST FORWARD 269-88 (1987) (detailing Congressional rejection of blank video tape levy).

[34] *See* 17 U.S.C. §§ 112 (compulsory license limited to new recordings of musical works); 1002 (technology mandate reaching only certain digital audio recorders), 1201(k) (technology mandate reaching only analog VCRs).

[35] The Digital Millennium Copyright Act ("DMCA"), Pub.L. No. 105-304, 112 Stat. 2860 (1998), is a good example of what Congress can do that courts cannot. The DMCA enacted numerous narrow exemptions to liability, *see, e.g.*, 17 U.S.C. § 512, compulsory licenses, *see, e.g.*, 17 U.S.C. § 114(d)(2), and even *sui generis* statutory protection for boat hull designs, *see, e.g.*, 17 U.S.C. § 1301. Even were these policies within the power of the courts to craft, it would have taken dozens of cases to achieve the same result via judicial action.

the business of regulating new and changing technologies that have both infringing and noninfringing uses, leaving that task to Congress.

Petitioners now ask this Court to grant certiorari in order to reverse course. They have proposed a rule that is the very antithesis of the one established by *Sony v. Universal*: "A *court* must assess a system's actual and probable potential infringing and noninfringing uses, and then must balance the costs and benefits to accommodate the interests of copyright holders in preventing infringement while protecting the right of the public to use products for noninfringing uses." Pet. 24 (emphasis added). They further propose that courts impose on innovators a general "legal duty either to have designed their services differently [to minimize infringing uses] in the first place or to take reasonable steps going forward to do so." Pet. 10. On Petitioners' view, it would presumably fall to the courts to define the scope of this duty on a technology-by-technology basis, supervising the design of each new technology that makes its way to market.

Petitioners have failed to provide any reason why this Court should reverse the federal courts' consistent practice – now two decades established – of leaving for Congress the task of adjusting copyright law to each new technology. As noted above, Congress is in the midst of evaluating legislative proposals to address P2P file sharing and other digital technologies. Congress has the ability to act quickly (certainly more quickly than the courts, which have now been addressing this case for more than three years); the fact that it has not done so yet is a testament to the complexities involved in foreseeing and balancing all of the interests at stake, complexities that Congress is better equipped to address than the courts.

The petition, quite simply, is an effort to obtain through judicial policy-making what Petitioners were unable to get from Congress during this legislative session. This end-run around the legislative process should be rejected.

II. The Lower Courts Correctly Rejected Petitioners' Effort To Overturn The "Substantial Noninfringing Use" Test Set Down In *Sony v. Universal* And Applied Established Secondary Liability Precedents.

1. *Sony v. Universal* marked the first time copyright owners sought to use the doctrines of contributory infringement and vicarious liability to assert control over a multipurpose technology. In refusing to allow such a radical expansion of secondary liability principles, this Court recognized that extensions of copyright law into the realm of innovation is a job best left to Congress.

The lower courts here applied the clear rule that *Sony v. Universal* established: so long as the technology in question is "merely . . . capable of substantial noninfringing uses," secondary liability will not lie against the developer, manufacturer or distributor of the technology. *Sony v. Universal,* 464 U.S. at 442. By opting for a "mere capability" standard, this Court specifically rejected Petitioners' focus on the potential for infringing uses and the proportion of infringing to noninfringing uses.[36] In fact, it was this very point on which the Court reversed the Ninth Circuit in that case, and that formed the dividing line between the majority and dissent. *See id.* at 428 (noting that the Ninth Circuit had erroneously focused on

[36] During first oral argument before this Court in *Sony v. Universal*, counsel for the motion picture studios specifically emphasized that authorized uses of the Betamax comprised less than 9% of the uses to which it was commonly put. *See* Oral Argument in *Sony v. Universal*, No. 81-1687, Jan. 18, 1983, at 1:00:44 (Steve Kroft, arguing for Respondents) (available at <http://www.oyez.org/oyez/resource/case/768/audio resources>). Despite this, the Court specifically held that one "substantial noninfringing use" sufficient to defeat the claim against Sony was the use of the Betamax to tape programs authorized by copyright owners for recording. *See Sony v. Universal,* 464 U.S. at 424 (finding that 7.3% of all Betamax use was to record professional sports, and that this use constituted a substantial noninfringing use); *id.* at 493-94 & n.45 (dissenters recognizing this holding).

"the major use" of the Betamax); *see also id.* at 498-99 (Blackmun, J., dissenting).

The "mere capability" standard has served copyright owners, innovators, and the public well for twenty years. First, it is amenable to summary judgment, sparing innovators from the threat of expensive litigation focusing on competing survey evidence regarding the proportion of infringing and noninfringing uses. This secures for innovators the breathing room necessary to attract investors, develop new products, and test those products in the marketplace rather than in court. The "mere capability" standard has also spared the courts from having to adjudicate the legality of every new technology as it arrives in the American living room. It has spared courts as well the awkward task of monitoring the proportion of infringing and noninfringing uses as they change over time in an effort to determine when contributory infringement liability may "spring" suddenly on a technology vendor.

The legal regime established by this Court in *Sony v. Universal* and by Congress in its subsequent enactments has made possible a remarkable array of new technologies, from the VCR to TiVo, from the audio cassette deck to CD burners, from the photocopier to the digital optical scanner, from Sony's Walkman to Apple Computer's iPod. To the extent these new technologies proved disruptive to existing entertainment industry business models, Congress, not the courts, has devised solutions.

Copyright owners have prospered as well. As the Ninth Circuit noted, "history has shown that time and market forces often provide equilibrium in balancing interests, whether the new technology be a player piano, a copier, a tape recorder, a video recorder, a personal computer, a karaoke machine, or an MP3 player." Pet. App. 21a. In fact, the very technologies that the incumbent copyright industries have sought to ban invariably have created new business opportunities that have dramatically

enhanced the value of copyrighted works.[37] Conversely, adoption of the approach proposed by Petitioners would create uncertain and shifting litigation exposure for every technology company whose products are widely used for infringement, including those that distribute email clients, web browsers, instant messaging software, CD burners, and MP3 players. Even the makers of VCRs and photocopiers could find themselves vulnerable to litigation by copyright owners.

2. Contrary to Petitioners' hyperbolic claim that the district court and Ninth Circuit rulings represent a "radical departure from principles of secondary liability," Pet. 2, the lower courts here applied well-established secondary liability rules to undisputed facts in reaching their conclusions.[38]

With respect to contributory infringement, the Ninth Circuit began with a "close examination of the record" regarding noninfringing uses. Pet. App. 10a. It found copious undisputed evidence of actual noninfringing uses. Pet. App. 10a-11a. These uses were "substantial" by any

[37] In 1983, Jack Valenti, head of the Motion Picture Industry of America, famously said "that the VCR is to the American film producer and the American public as the Boston Strangler is to the woman home alone." Home Recording of Copyrighted Works: Hearings on H.R. 4783, H.R. 4794, H.R. 4808, H.R. 5250, H.R. 5488, and H.R. 5750 Before the House Subcomm. on Courts, Civil Liberties, and the Administration of Justice of the Committee on the Judiciary, 97th Cong. (2d Sess.) 8 (1983). Of course, history proved that he was mistaken. *See* Susan Crabtree, *Jack Valenti Showest Medal of Honor*, Variety.com, Mar. 24, 2004 ("The Supreme Court ruled against Universal's and Sony's attempt to ban the VCR, and home-video sales now account for more than 50% of Hollywood's revenue.") (available at <http://www.variety.com/story.asp?l=story&a=VR1117902222&c=1709>).

[38] In fact, a group of 40 intellectual property and technology law professors filed an amicus brief before the Ninth Circuit supporting the approach adopted by the court as the one clearly dictated by precedent and copyright policy. *See* Brief Amici Curiae of 40 Intellectual Property and Technology Law Professors Supporting Affirmance, No. 03-55894, filed Sept. 26, 2003 (available at <http://www.eff.org/IP/P2P/MGM_v_Grokster/20030930_lawyers_amicus.pdf>).

relevant metric – they included uses that were commercial, as well as noncommercial, and they were plainly plentiful. Pet. App. 11a-12a & n.10. Accordingly, the Ninth Circuit found that the *Betamax* defense properly applied, precluding the imposition of secondary liability on the technology distributors.

It was Petitioners who urged a "radical departure" from this Court's binding *Sony* precedent, pressing the Ninth Circuit to abandon this Court's "mere capability" standard for a very different standard rooted in a proportionality analysis. Petitioners' approach echoes the one proposed by the movie studios in *Sony v. Universal*, adopted by the dissent, but expressly rejected by the majority. *See Sony v. Universal*, 464 U.S. at 428, 498-99. Petitioners' proportionality test was properly rejected by the Ninth Circuit below in light of *Sony v. Universal*.

Completely apart from its application of *Sony v. Universal*, the Ninth Circuit also found that Petitioners had failed to satisfy the "material contribution" element of contributory infringement. Pet. App. 14a-16a. The court found that, besides distributing the software, Respondents "do not provide the 'site and facilities' for infringement, and do not otherwise materially contribute to direct infringement." Pet. App. 14a. In their eagerness to make this case a vehicle for overturning *Sony v. Universal*, Petitioners have failed to address this independent ground for the Ninth Circuit's ruling.

With respect to vicarious liability, both lower courts found absolutely no evidence in the record to suggest that Respondents had any ability to supervise or control the infringing activities of those who use their software. Pet. App. 17a-20a. Under the principles uniformly applied in the circuits, this defect is necessarily fatal to Petitioners' vicarious liability claim. *See, e.g., A&M v. Napster*, 239 F.3d at 1022; *RCA/Ariola Int'l v. Thomas & Grayston Co.*, 845 F.2d 773, 781-82 (8th Cir. 1988); *Gershwin Publishing v. Columbia Artists Mgt.*, 443 F.2d 1159, 1162 (2d Cir. 1971). It was Petitioners who urged a "radical departure"

from these established and uniform precedents, arguing that the court ought to impose liability even in the absence of any "right and ability to supervise."

In place of the traditional "right and ability to supervise" element, Petitioners urged the courts below to adopt an unprecedented "could have designed it differently" test. On that view, the ability to supervise should be imputed to defendants whenever the technology in question could hypothetically have been designed differently so as to reduce the incidence of infringement. This radical reconfiguration of vicarious liability was properly rejected by the courts below, just as it was rejected by this Court in *Sony v. Universal*, when the movie studios argued that the Betamax VCR could easily have been redesigned to either omit the record feature or implement a "jammer" to block unauthorized recording. *See Sony v. Universal*, 464 U.S. at 494 (Blackmun, J., dissenting).

III. The Decision Below Creates No Split Among The Circuits.

The Ninth Circuit below does not conflict with the Seventh Circuit's ruling in *In re Aimster Copyright Litigation*, 334 F.3d 643 (7th Cir. 2003). Petitioners' effort to manufacture an inter-circuit disagreement based on dicta from the two cases is unavailing; the holdings of these two cases are entirely consistent.

1. *Aimster* involved review of a grant of a preliminary injunction. Accordingly, the only question before the court was whether the district judge, on the record before him, abused his discretion in granting the injunction pending trial.

The answer to this question was in large part dictated by the facts confronting the district court in *Aimster*, facts starkly different from those presented in this case. Like the Napster service, the defendant in *Aimster* maintained a centralized indexing service on its computers that afforded it perfect knowledge and complete control over the infringing activities of its users. *See Aimster*, 334 F.3d

at 646-47. In addition, Aimster's user tutorials and "Club Aimster" services affirmatively encouraged and solicited infringing activities. *See id.* at 651-52. On these facts, the Seventh Circuit held that the district court had not abused its discretion in entering a preliminary injunction, mirroring the Ninth Circuit's affirmance of the preliminary injunction imposed in *A&M v. Napster*. As detailed above, the lower courts in this case found the facts to be different from those in *Aimster* in every particular: Respondents controlled no central indexes, had no ability to monitor or control what users searched for, shared, or downloaded, and did nothing to directly contribute to any infringements.

2. Nor can Petitioners point to any conflict between the Seventh and Ninth Circuits on applicable legal principles.

As an initial matter, the *Aimster* court declined to reach the vicarious liability issue, noting that plaintiffs' contributory infringement claim fully supported the preliminary injunction. *See id.* at 654. Thus, there is no split between the Seventh and Ninth Circuits with respect to vicarious liability. In fact, to the extent *Aimster* addressed the issue, it expressed doubts regarding Petitioners' notion that a defendant's ability to redesign a product could satisfy the "control" element of vicarious liability. *See id.* ("Sony could have reduced the likelihood of infringement, as we noted earlier, by a design change. But the Court, treating vicarious and contributory infringement interchangeably held that Sony was not a vicarious infringer either." [internal citation omitted]).

On the issue of contributory infringement, the Seventh Circuit found that Aimster had failed to introduce *any evidence whatsoever* that its technology was capable of noninfringing uses. *See id.* at 653. The court therefore held that Aimster could not avail itself of the *Betamax* defense. Consequently, Aimster was left in the same position as distributors whose products have no noninfringing uses. *See, e.g., A&M Records v. Abdallah*, 948 F. Supp. 1449,

1456 (C.D. Cal. 1996) (vendor held contributorily liable for selling custom time-loaded cassettes incapable of substantial noninfringing uses). The *Aimster* holding – that a failure to introduce *any* evidence regarding noninfringing uses forfeits the *Betamax* defense – is uncontroversial and creates no conflict with the Ninth Circuit's ruling in this case, where Respondents introduced copious and undisputed evidence of noninfringing uses.

The balance of Judge Posner's discussion of contributory infringement, on which Petitioners rely, is entirely dicta. In the 16 months following the ruling, no court (in the Seventh Circuit or elsewhere) has elected to embrace the views expressed there. That dicta, moreover, is contrary to the views expressed by the other circuits that have applied *Sony v. Universal*. *See, e.g., Matthew Bender & Co. v. West Publishing*, 158 F.3d 693, 706-07 (2d Cir. 1998); *Vault v. Quaid*, 847 F.2d 255, 264-67 (5th Cir. 1988). Accordingly, there is no precedential split among the circuits that would justify this Court's granting review. *See Bunting v. Mellen*, 124 S.Ct. 1750, 1754 (2004) (Scalia, J., dissenting from denial of cert.) ("We sit, after all, not to correct errors in dicta; '[t]his Court reviews judgments, not statements in opinions.'" [internal citation omitted]); *Black v. Cutter Laboratories*, 351 U.S. 292, 298 (1956) ("[I]t is our duty to look beyond the broad sweep of the language and determine for ourselves precisely the ground on which the judgment rests.").

3. Finally, Petitioners attempt to manufacture an inter-circuit conflict by claiming that the Seventh Circuit in *Aimster* required that a defendant attempting to invoke *Sony v. Universal* demonstrate *actual* noninfringing uses, while the Ninth Circuit in the ruling below held that evidence of *potential* noninfringing uses could be enough. Pet. 25-26.

Petitioners are mistaken. The Seventh Circuit made it clear that evidence of either "present or prospective" noninfringing uses would satisfy the requirements of *Sony v. Universal*, agreeing with the Ninth Circuit's approach in this case. *Aimster*, 334 F.3d at 650 (noting the wisdom of

"the Court's emphasis on potential as well as actual noninfringing uses" in *Sony v. Universal*). The defendant in *Aimster*, in contrast, foundered because it failed to come forward with any evidence whatsoever of actual *or* potential noninfringing uses.[39] In the instant case, in contrast, Respondents submitted extensive evidence of both present and prospective noninfringing uses, evidence that the lower courts considered in making factual findings and applying *Sony v. Universal*.

IV. No Urgency Justifies This Court Taking Over The Task The Constitution Commits To Congress.

Petitioners claim that immediate intervention by this Court is urgently necessary because "everything is on the line" for their businesses. The picture Petitioners paint is incomplete and fails to explain why judicial action should supplant Congress' current efforts to address Petitioners' concerns.

First, Petitioners fail to mention the dilatory manner in which they have pursued relief in this case. Petitioners did not file this suit for some eight months after learning of Respondents' file sharing software. After filing the suit in October 2001, at no point did Petitioners seek preliminary injunctive relief. It was Respondents who brought the motions for partial summary judgment at issue here and pressed for the speedy resolution of this case before the district court. Only after the district court's April 2003 partial summary judgment ruling did Petitioners begin pressing for expedited appellate treatment.

Moreover, despite the widespread use of P2P file-sharing applications,[40] the music industry Petitioners are

[39] Judge Posner hypothesized that noninfringing uses might have existed for Aimster's system, but held that Aimster had failed to shoulder its burden of production to come forward with evidence regarding such noninfringing uses. *See Aimster*, 334 F.3d at 652.

[40] Petitioners blatantly mislead this Court when they characterize Respondents as "two of the most popular peer-to-peer services in the

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finding ways to prosper. The recording industry recently announced that wholesale shipments of CDs to retailers for the first two quarters of 2004 are up 10% over 2003 figures.[41] This bolsters recent studies suggesting that file-sharing may not, in fact, be responsible for the downturn in music sales.[42] Sony Music recently disclosed to European regulators that it was profitable for the business year through March 2004, while BMG averred that its most recent two quarters were the most successful in its corporate history.[43] And despite Petitioners' dire warning that the Ninth Circuit ruling will cripple authorized online music services, Pet. 30, Apple Computer's iTunes Music Store recently sold its 150 millionth authorized download.[44] The motion picture studio Petitioners, for their part, are

country." Pet. 29. As Petitioners are well aware, Respondents are relatively small players in a P2P market dominated by the distributors of Kazaa and eDonkey, who are not before this Court. *See* John Borland, *Kazaa Loses P2P Crown*, CNET News, Oct. 11, 2004 (describing the dominance of Kazaa and eDonkey software among P2P file sharers) (available at <http://news.com.com/Kazaa+loses+P2P+crown/2100-1038_3-5406278.html>).

[41] *See* John Borland, *CD Shipments Surge After Lean Years*, CNET News, Oct. 20, 2004 (available at <http://news.com.com/CD+shipments+surge+after+lean+years/2100-1027_3-5419640.html>).

[42] *See Music's Brighter Future*, The Economist, Oct. 28, 2004 ("According to an internal study done by one of the majors, between two-thirds and three-quarters of the drop in sales in America had nothing to do with internet piracy.") (available at <http://www.economist.com/business/displayStory.cfm?story_id=3329169>); John Borland, *Music Sharing Doesn't Kill CD Sales, Study Says*, CNET News, Mar. 29, 2004 (available at <http://news.com.com/Music+sharing+doesnt+kill+CD+sales%2C+study+says/2100-1027_3-5181562.html>).

[43] *See Commission of the European Communities*, Case No. COMP/M.3333 – Sony/BMG (decision of July 19, 2004) at ¶ 59 (available at <http://europa.eu.int/comm/competition/mergers/cases/decisions/m3333_en.pdf>).

[44] *See* John Borland, *Apple iTunes Sales Quicken*, CNET News, Oct. 14, 2004 (available at <http://news.com.com/Apple+iTunes+sales+quicken/2110-1027_3-5410365.html>).

enjoying their most successful years in history, buoyed by record home video and theatrical ticket sales.[45]

Petitioners also paint an incomplete picture of the other tools at their disposal to address infringing conduct on P2P networks. They have mounted consumer education efforts, including national advertising efforts in newspapers, magazines, and movie theaters.[46] Perhaps most importantly, they have filed more than 6,000 high-profile lawsuits against individual file-sharers.[47] In stark contrast to Petitioners' claim here that immediate judicial intervention is necessary because the harm they suffer "cannot be redressed through lawsuits against the millions of direct infringers using those services," Pet. 2, the recording industry in a filing before this Court just a few months ago argued that the campaign of lawsuits against individuals had cut the incidence of infringing downloads by 50% in just six months. *See* Petition for Writ of Certiorari, *RIAA v. Verizon*, No. 03-1722, at 27 n.18 (filed May 24, 2004).

Peer-to-peer file sharing software has been widely available for more than five years. In that time, tens of millions of Americans have been using the software for both infringing and noninfringing uses. While the infringing uses are certainly a cause for concern, there is no

[45] *See* Chris Taylor, *Invasion of the Movie Snatchers*, TIME Magazine (Oct. 11, 2004) ("[T]he studios can't exactly argue that file sharing is about to put them out of business. DVD sales, which grew 33% last year, and box-office receipts have never been stronger.").

[46] *See* Dinesh C. Sharma & John Bowman, *Hollywood Steps Up Antipiracy Campaign*, CNET News, June 15, 2004 (available at <http://news.com.com/Hollywood+steps+up+antipiracy+campaign/2100-1026_3-5234272.html>); Lisa M. Bowman, *MPAA Warnings Hit the Big Screen*, CNET News, July 22, 2003 (available at <http://news.com.com/MPAA+warnings+hit+the+big+screen/2100-1026_3-5051653.html>).

[47] *See* Laura M. Holson, *Film Group Said to Plan Suits Aimed at Illegal File Sharing*, New York Times, Nov. 4, 2004, at C6; Alex Veiga, *Recording Industry Sues Another 750 Computer Users*, 10/28/04 AP Newswires 22:20:03, Oct. 29, 2004 ("In all, recording companies have sued 6,191 music fans since September 2003, when the industry began waging its legal campaign against online sharing of music files.").

urgency at this time that would justify this Court granting certiorari and disrupting Congress' consideration of the issues raised by P2P technologies. In fact, recent trends suggest that the existing remedies available to copyright owners, combined with marketplace responses, are beginning to pay dividends without any need for changes to copyright's settled secondary liability principles. To the extent adjustments may prove necessary, there is time for Congress to continue its deliberations, already underway.

V. CONCLUSION

The petition for certiorari should be denied.

Respectfully submitted,

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November 8, 2004

APPENDIX A

United States District Court,

Central District of California.

METRO-GOLDWYN-MAYER STUDIOS, INC., et al., Plaintiffs,

v.

GROKSTER, LTD., et al., Defendants.

Jerry Lieber, et al., Plaintiffs,

v.

Consumer Empowerment BV a/k/a Fasttrack, et al., Defendants

And Related Counterclaims

No. CV 01-08541 SVW (PJWx), CV 01-09923 SVW (PJWx).

June 18, 2003.

ORDER DIRECTING ENTRY OF PARTIAL FINAL JUDGMENT AND ALTERNATIVELY CERTIFYING APRIL 25, 2003 ORDER FOR IMMEDIATE APPEAL

WILSON, District Judge.

I. INTRODUCTION

Now before the Court is Plaintiffs' Motion for entry of partial final judgment and for certification of the Court's April 25, 2003 Order ("April 25 Order") for immediate appeal. For the reasons set forth below, the Motion is GRANTED.

II. ANALYSIS

A. Partial Final Judgment

Plaintiffs move first for entry of partial final judgment under Fed. R. Civ. P. 54(b). Rule 54(b) provides that "[w]hen more than one claim for relief is presented in an action . . . , the court may direct the entry of a final judgment as to one or more but fewer than all the claims . . . upon an express direction that there is no just reason for delay and upon an express direction for the entry of judgment." Fed. R. Civ. P. 54(b). Entry of partial final judgment is proper if it will aid in "expeditious decision" of the case. *Texaco, Inc. v. Ponsoldt*, 939 F.2d 794, 797-98 (9th Cir. 1991).

Defendant Sharman Networks ("Sharman") objects to this motion, contending that the April 25 Order did not finally resolve any of Plaintiffs' "claims," and thus that entry of judgment under Rule 54(b) is not proper.

The plaintiffs in each of the consolidated cases allege "single" copyright claims arising from Defendants' past and present conduct. The April 25 Order decided only those aspects of Plaintiffs' copyright claims as they apply to the "current versions" of Defendants Grokster, Ltd.'s ("Grokster") and StreamCast Network, Inc.'s ("StreamCast") software and services. The Court declined to rule on the current record as to the potential liability arising from "past versions" of Defendants' products and services. Sharman's position, therefore, is that the copyright claims have not been fully adjudicated, and are not eligible for entry of judgment under Rule 54(b).

Plaintiffs' response on this point is that a single "count" in a complaint may state more than one "claim," and that Rule 54(b) judgment may properly be entered

where a single "claim" is resolved, even if Court does not dispose of the entire count. Plaintiffs note some authority to this effect. *See Primavera Familienstifung v. Askin*, 130 F. Supp. 2d 450, 539-40, 542-43 (S.D.N.Y. 2001) (citing Second Circuit for proposition that counts consist of multiple claims if the allegations therein could be parsed into separately enforceable causes of action); *Federal Election Comm'n v. Christian Coalition*, 52 F. Supp. 2d 45, 98 (D.D.C. 1999).

Indeed, the liberal pleading standards of the federal system inevitably give rise to circumstances in which a single count in a complaint may contain more than one legally cognizable claim. See Fed. Rules Civ. P. 8(a), 8(f); *Arizona Carpenters Pension Trust Fund v. Miller*, 938 F.2d 1038, 1040 (9th Cir. 1991) (explaining that "claim" refers to set of facts giving rise to legal rights in a claimant). Because Plaintiffs' copyright claims as they apply to present versus past conduct are factually (and, potentially, legally) distinct, and because the Court's April 25 Order granted summary judgment for Defendants as to the former, partial final judgment may properly be directed.

Under Rule 54(b), it remains only for the Court to direct that there is no reason to delay entry of judgment, and that partial final judgment will aid in expeditious decision of the case. Fed. R. Civ. P. 54(b). Because appellate review of the Court's April 25 Order will undoubtedly inform the many remaining components of this case, and absent any persuasive reason for delay, the Court so directs.

Accordingly, the Court DIRECTS entry of partial final judgment on the claims concerning the "current versions" of Defendants' products and services as to which the April

25 Order granted summary judgment for Defendants Grokster and StreamCast.

B. Certification for Appeal

In addition, and in the alternative, Plaintiffs move the Court to certify the April 25 Order for interlocutory appeal pursuant to 28 U.S.C. § 1292(b). Section 1292(b) allows certification of an interlocutory order where "such order involves a controlling question of law as to which there is a substantial ground for difference of opinion and . . . and immediate appeal from the order may materially advance the ultimate termination of the litigation." 28 U.S.C. § 1292(b).

1. Controlling Question of Law

There is little question that the April 25 Order involved a controlling question of law, as it determined Grokster's and StreamCast's liability for their current products and services, and engaged in legal interpretation that undoubtedly would inform – if not decide – the issues of past liability for these Defendants.

2. Substantial Grounds for Difference of Opinion

Plaintiffs note a number of bases for a possible difference of opinion as to the correctness of the Court's April 25 ruling.

First, Plaintiffs assert that the Court applied the Ninth Circuit decision in *A&M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004 (9th Cir. 2001) ("*Napster*") "more narrowly" than other courts by interpreting the conduct

described therein as "necessary" to give rise to copyright liability, rather than simply "sufficient" to do so. Thus, they maintain, the fact that Grokster's and StreamCast's conduct does not rise to the level of Napster's should not preclude a finding of liability.

As the Court then noted, the fundamental question with respect to contributory liability is whether either Defendant materially contributes to the alleged infringement with knowledge of that infringement. (April 25 Order, at 16.) That this accurately reflects the elements of contributory infringement is confirmed by, and not in tension with, the decision purportedly at odds with this Court's Order. *See Fonovisa, Inc. v. Napster, Inc.*, 2002 WL 398676, at *4 (N.D. Cal. Jan. 28, 2002).

Further, while the Court necessarily compared the conduct before it with that found potentially sufficient to give rise to secondary liability in *Napster*, Plaintiffs are incorrect to characterize the April 25 Order as interpreting Napster's conduct to be necessary to a finding of liability. After contrasting Defendants' conduct with that of Napster, the Court proceeded separately to consider at length the evidence adduced by Plaintiffs in support of their allegation that Grokster and StreamCast materially contribute to their users' alleged infringement. (April 25 Order, at 24-27.) The Court concluded that Plaintiffs had adduced *no evidence* that Defendants materially facilitate or contribute to the file exchanges that form the basis of these lawsuits. (*See id.*) The Court of course agrees with Plaintiffs' legal proposition that a "range of conduct" may give rise to contributory copyright liability, other than "a combination of actual knowledge and failure to block access." *Fonovisa, Inc. v. Napster, Inc.*, 2002 WL 398676, at *7. As was thoroughly elucidated in the April 25 Order,

however, Plaintiffs failed to carry their burden of showing a material dispute as to whether Defendants' conduct falls within that range.[1]

Second, Plaintiffs point to the district court decision in *In re Aimster Copyright Litigation*, 252 F. Supp. 2d 634, 2002 U.S. Dist. LEXIS 17054 (N.D. Ill. Sept. 22, 2002). That case is factually and legally distinct. Most significantly, Aimster used copyrighted song titles as pedagogical examples in its user tutorial, provided catalogs of popular copyrighted music to its users, and generally based its service on encouraging the exchange of copyrighted music. *Id.*, at *36, 40-42. The court in *Aimster* did not rely on the provision of filesharing software and support services alone, but rather pointed specifically to the fact that "Aimster predicates its entire service upon furnishing a 'road map' for users to find, copyright and distribute copyrighted music." *Id.* at *41-42. Such encouragement of copyright infringement undoubtedly is of a different tenor in the contributory infringement analysis than what was before this Court.

Moreover, the *Aimster* court specifically stated that the Napster decision, "while certainly persuasive on some points, is simply not precedential authority in this circuit . . . [O]ur decision today need not rest on the legal reasoning or factual findings of the Napster courts." *Id.* at *4. Because the *Aimster* decision is unmoored from this circuit's binding precedent, it is unclear whether a contrary conclusion by that court, even if one was reached,

[1] To the extent that the April 25 Order was not explicit on this point, the Order is amended to incorporate the analysis herein.

constitutes the type of tension contemplated by 28 U.S.C. § 1292(b).

Indeed, Plaintiffs point to the *Aimster* court's analysis of *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417, 104 S. Ct. 774 (1984), on the issue of whether Defendants' products have substantial non-infringing uses. Yet the *Aimster* court did not mention the Ninth Circuit's exposition of that issue in *Napster* (*see* 239 F.3d at 1020-21), by which this Court is bound. (*See* April 25 Order, at 12-13.) Further, Plaintiffs have essentially not disputed that Defendants' software has current and potential future substantial non-infringing uses, and it is curious that Plaintiffs would seek to squarely address this issue for the first time on appeal.

Finally, Plaintiffs take issue with the Court's observation that Grokster and StreamCast "may have intentionally structured their businesses to avoid secondary liability for copyright infringement, while benefitting financially from the illicit draw of their wares." (April 25 Order, at 33.) Plaintiffs contend that such efforts should not be countenanced by a finding that no copyright liability accrues. If this Court is correct in its interpretation and application of existing copyright law, however, this position is nothing more than an invitation to judicial policy-making – a course the Supreme Court has specifically warned against in the copyright context. *See Sony*, 464 U.S. at 431; *Teleprompter Corp. v. Columbia Broadcasting System, Inc.*, 415 U.S. 394, 414, 94 S. Ct. 1129 (1974).

Nonetheless, as Plaintiffs observe, it is not necessary for the Court to believe it erred for there to exist a "substantial ground for difference of opinion." So long as the Court's decision is "arguably" in tension with rulings by

other courts, Section 1292(b) certification is appropriate. *See, e.g., Am Geophysical Union v. Texaco, Inc.*, 802 F. Supp. 1, 29 (S.D.N.Y. 1992). Given the relative novelty of the claims presented, the potentially contrary decision by the *Aimster* court, and the lack of controlling authority dispositive of the issues in this case, the Court's ruling clearly is susceptible to substantial differences of opinion.

3. Immediate Appeal Would Advance Termination of the Case

Because an appellate decision on the April 25 ruling is bound to inform and perhaps direct the Court's resolution of the issues remaining in this case, an immediate appeal is likely to facilitate termination of this litigation

Although the Court's entry of partial final judgment affords Plaintiffs an appeal as of right, the Court alternatively amends the April 25 Order (as otherwise amended herein) to certify it for immediate appeal pursuant to 28 U.S.C. § 1292(b).

C. Grokster's Request for Entry of Final Judgment

Grokster notes that, unlike StreamCast, it moved for summary judgment without qualification – StreamCast limited its Motion to the current versions of its software – and that the April 25 Order purported to grant Grokster's Motion. Accordingly, Grokster contends that all claims against it have been resolved, and final judgment should be entered in its favor.

As noted *supra*, however, the April 25 Order was expressly limited to the "current versions" of Grokster's

and StreamCast's software and services. (*See* April 25 Order, at 6.) The Order specifically did not "reach the question whether either Defendant is liable for damages arising from *past* versions of their software, or from other past activities." (*Id.*) To the extent that the April 25 Order was unclear, it is amended to reflect that Grokster's Motion was GRANTED IN PART as to Plaintiffs' claims arising from the current versions of Grokster's products and services.

Grokster further contends that the "past versions" of its software and services are functionally synonymous with the "current versions," and thus that the Court's April 25 Order necessarily resolved all the claims against Grokster. The Court notes that at oral argument on the instant Motion, Plaintiffs suggested a dispute as to whether or not Grokster has previously operated factually distinct file-sharing services. Further, Grokster itself concedes that it at one time operated a "root supernode," and the Court has not ruled on the legal significance of that fact. (*See* April 25 Order, at 21 & n.6.) Finally, even if Grokster is correct as a factual matter that its current and past activities are essentially indistinguishable, the April 25 Order simply did not reach the latter category.

Accordingly, the Court declines to enter final judgment as to Defendant Grokster other than as directed supra pursuant to Rule 54(b).

D. StreamCast's Request to Stay Discovery

StreamCast requests that the Court stay discovery on the claims remaining against it pending appeal. The Court declines that request.

III. CONCLUSION

Therefore, the Court HEREBY GRANTS Plaintiffs' Motion for Entry of a Partial Final Judgment Under Fed. R. Civ. P. 54(b) and for Certification of the April 25 Order for Immediate Appeal Under 28 U.S.C. § 1292(b).

The Court HEREBY DIRECTS entry of final judgment as to claims concerning the current versions of Defendants Grokster's and StreamCast's respective products and services.

The Court HEREBY AMENDS the April 25 Order (as otherwise amended herein) to certify it for interlocutory appeal pursuant to 28 U.S.C. § 1292(b).

IT IS SO ORDERED AND ADJUDGED.

APPENDIX B

Consumer Electronics Association | IEEE-USA | NetCoalition

October 6, 2004

The Honorable
Orrin G. Hatch
Chairman
Senate Committee on the Judiciary
224 Dirksen Senate Building
Washington, DC 20510

The Honorable
Patrick J. Leahy
Ranking Minority Member
Senate Committee on the Judiciary
152 Dirksen Senate Building
Washington, DC 20510

Dear Chairman Hatch and Senator Leahy:

At the July 22 hearing, we committed to working with you to craft a legislative alternative to S. 2560. At Chairman Hatch's direction, we have been working virtually around the clock for almost a week in an effort to reach consensus with the copyright community. Notwithstanding everyone's hard work and good intentions, we find ourselves farther apart now than at the outset of this process. Because we are attempting to write legislation dealing with complex and evolving technology, this has proven to be an exceptionally difficult process.

Unfortunately, the recording industry continues to propose language that would not solve the piracy problems in the manner you identified, but instead would effectively put at risk all consumer electronics, information technology products, and Internet products and services that aren't designed to the industry's liking. In fact, the most recent draft put forward by the recording industry at 1:00 am this morning is a large step backwards from previous drafts in that it would jeopardize more legitimate products

and would create a flood of litigation, and thus would hurt vital sectors of the U.S. economy. In short, the draft is unacceptable.

In your letter to the Register of Copyrights, you expressed interest in a "technology-neutral law directed at a small set of bad actors while protecting our legitimate technology industries from frivolous litigation." At this Committee's request, three alternatives were provided by the undersigned associations that would address the kind of mass, indiscriminate infringing conduct at the heart of the piracy problem, while preserving the Supreme Court's Betamax decision. As you know, we consider that decision the Magna Carta of the technology industry and it is in no small measure responsible for our nation's preeminence in technological innovation and entrepreneurship. The latest draft put forward by the recording industry would undermine the Betamax decision with respect to the most vital and innovative sectors of the Information Economy.

Notwithstanding the fact that the parties are so far away from reaching consensus on the most fundamental aspects of a bill, we understand that some version of S. 2560 is still scheduled to be marked up before the Senate adjourns at the end of this week.

We very much appreciate your efforts and those of your staff over the past week to achieve the goal you established. We wish to reemphasize that we remain committed to working with you to enact a "technology-neutral law directed at a small set of bad actors while protecting our legitimate technology industries from frivolous litigation." The current recording industry draft does none of this. It is not technology neutral, is widely

overbroad in scope, and will chill innovation in a critical marketplace.

We must therefore oppose a bill that fails to meet your criteria. Given that the Senate will be in session in November, we urge you not to move forward now with S. 2560 and urge you instead to encourage content owners to address your stated intent and focus on bad actors rather than legitimate technologies that are of great value to the consuming public.

Sincerely,

Gary Shapiro
CEA

John W. Steadman, Ph.D, P.E.
IEEE-USA

Kevin S. McGuiness
NetCoalition

cc: The Honorable Bill Frist
The Honorable Tom Daschle
The Senate Judiciary Committee